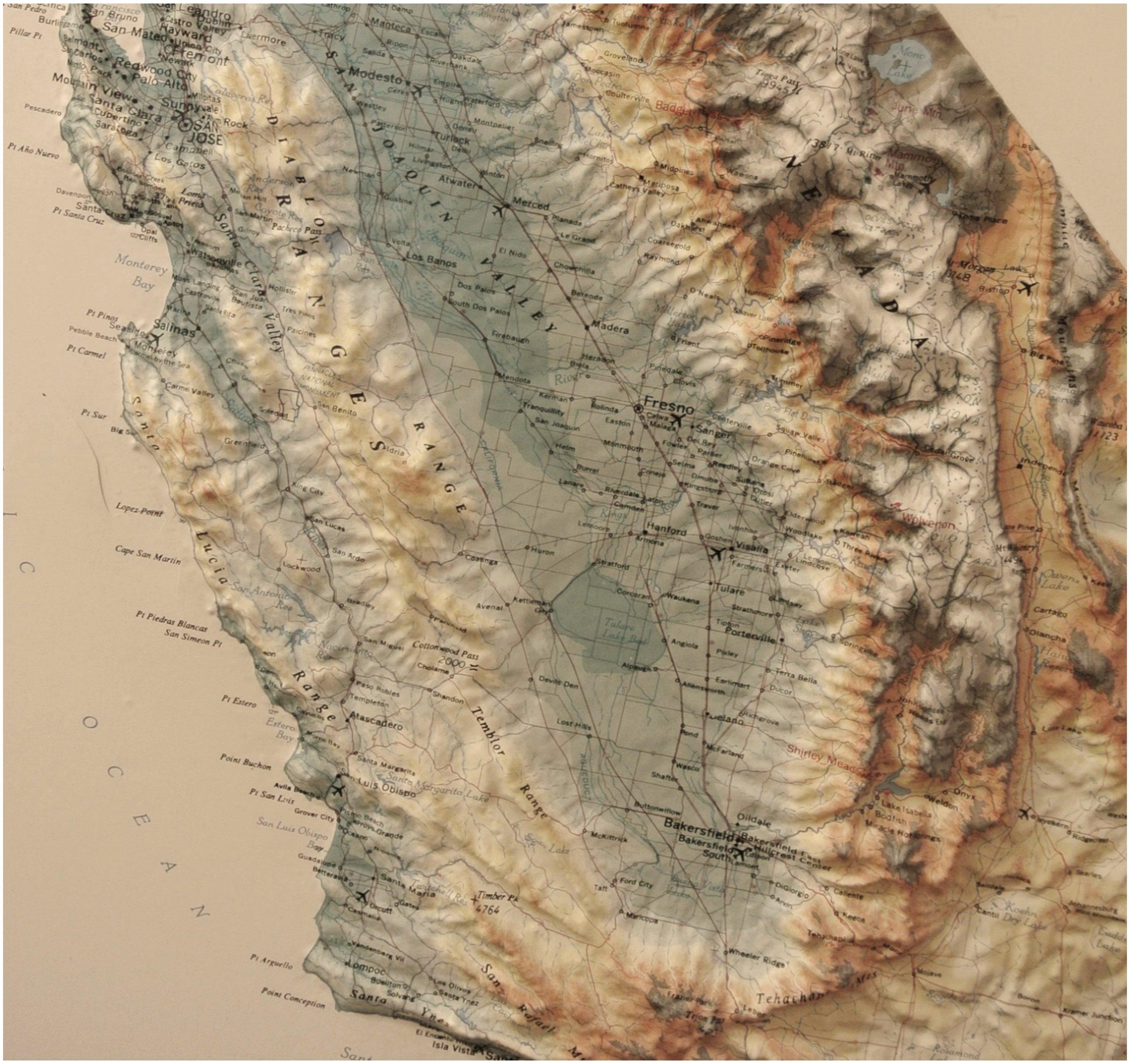

DOWN IN THE VALLEY
FINANCIAL NEGLECT IN RURAL CALIFORNIA

California Reinvestment Coalition

JUNE 2013

The California Reinvestment Coalition (CRC) advocates for fair and equal access to financial institutions for California's low income communities and communities of color. CRC is a coalition of three hundred nonprofit organizations and public agencies across California that work together for community economic vitality. CRC has been concerned for many years about the barriers to finance experienced by rural and non-metropolitan communities. This report was prepared by Andrea Luquetta, Kevin Stein and Alan Fisher. Kristina Bedrossian and Amelia M. Martínez C. provided helpful edits.

Guidance on rural issues was provided by Paul Ainger of the Rural Community Assistance Corporation, Kevin Hill of the San Joaquin Valley CRA Collaborative, Ilene Jacobs of California Rural Legal Assistance, and Rob Wiener of the California Coalition for Rural Housing and Clarence Williams of California Capital.

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EXECUTIVE SUMMARY

The most powerful banks in California and the nation are failing to meet the financial services and credit needs of residents and businesses in the San Joaquin Valley. Bank of America, JPMorgan Chase and Wells Fargo (the "Big 3 banks") provide a lower level of affordable consumer, housing and small business lending and services to Valley residents and businesses than they do to consumers in other parts of California. Bank regulators contribute to this failure because they do not enforce the necessary attention from banks to nonmetropolitan areas like the Valley. As a result, the San Joaquin Valley lags in growth—a bleak fact that has become increasingly apparent during the current economic recovery.

The Big 3 banks are failing to provide several necessary financial products and services to residents in the San Joaquin Valley. First, the Valley has a higher percentage of households that are unbanked and under-banked than other areas in California, but they have less access to branches and affordable bank accounts. Basic bank accounts, which are already too expensive for many households throughout the state, are even less accessible for Valley residents. As a result, households have become targets for predatory check cashing and payday loan outlets, which provide dramatically more access to financial services than banks in the Valley.

Second, the Big 3 banks are not providing enough financing for single family housing in the Valley. Residents in the Valley get proportionally half as many home loans per household as Californians in general. They also have a higher rate of FHA loans, which can be more expensive and are often forced on borrowers who qualify for other less expensive home loans. The Valley also receives only 1.1% of the affordable rental housing loans in the state despite a severe affordable rental housing shortage in the area.

Third, the Big 3 banks are not meeting the needs of small businesses in the Valley, including minority-owned businesses. There are far fewer small business loans proportionally in the San Joaquin Valley than in Los Angeles and the Bay Area. Data shows even worse performance for the Valley's African American and Latino owned-businesses than other businesses.

As a result of these bank practices, the Valley's vibrant immigrant and native populations are not able to access mortgages and small business loans at the same rates as households in metropolitan California, and predatory payday lenders and check cashers have become substitutes for basic banking services. To provide fair and equal access to financial products to residents in the San Joaquin Valley, banks must stop ignoring this market and dedicate significant resources that allow California's rural communities to thrive. In addition, regulators should play a positive role by encouraging banks to fully serve the San Joaquin Valley and other non-metropolitan areas of California. Regulators should prioritize community need over market activity and fully evaluate banks' lending performance in nonmetropolitan areas instead of focusing on their activity in metropolitan areas.

To aid the economic recovery and growth potential of California's great agricultural valley, financial institutions, federal and state policymakers and regulators should work together to eliminate the barriers to financial access that are demonstrated in this report.

I. Introduction

California is a vast and diverse state that is home to 38 million people stretched across 155 million acres of land. California's two major metropolitan areas, the San Francisco Bay Area and Los Angeles, are home to 16 million people, or less than half of the total population. The other 16 million live in smaller metropolitan areas or non-metropolitan areas, such as the San Joaquin Valley. The San Joaquin Valley is one of the most productive rural economies in the country with a higher population than twenty-two states in the country. However, the Valley suffered greatly during the housing crisis, and is lagging behind other regions of the state in the current economic recovery. Even though the Community Reinvestment Act (CRA) requires that banks work to provide financial services, loans and investment in all communities that they serve, California's most dominant banks direct far fewer resources to non-metropolitan areas than to Los Angeles, the Bay Area, and other metropolitan regions.

The California Reinvestment Coalition (CRC) has expressed concern to banks and regulators about the comparative lack of access to mainstream financial resources for non-metropolitan California. The experience of CRC members in non-metropolitan California, as well as the bankers we have spoken to about this problem, has pointed to limited regulatory examinations as one impediment towards geographic equality. Performance evaluations for compliance with the Community Reinvestment Act, conducted by the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank, focus on activities in Los Angeles and the Bay Area in far more detail and at the expense of attention on the San Joaquin Valley.

When examining bank activity through CRA exams, bank regulators typically do not collect as much information about bank activities in non-metropolitan areas. Only one of the largest banks is reviewed for their activity in any non-metropolitan area under the regulators' "full scope" evaluation of the bank's statewide lending activity. For most large banks, most of their activities in non-metropolitan California are evaluated under a "limited scope" review. This means that bank activities in these areas will not count in any significant measure towards the bank's overall CRA performance rating. Banks are thus less likely to serve geographic areas where their activity will count for less credit. They will open fewer branches and make fewer loans and investments than they will in urban, metropolitan areas. This becomes a cycle that reinforces itself: banks do not grow their presence in areas regulators pay less attention to and in turn regulators pay less attention to area where the banks are not strongly present.

METHODOLOGY

To demonstrate this problem, we examined bank performance in the eight counties of California's great agricultural valley—the San Joaquin Valley—as a proxy for non-metropolitan California. This report compares the housing, economic development and consumer financial services provided by the state's three biggest banks—Bank of America, Wells Fargo and JPMorgan Chase—in the San Joaquin Valley[1], Los Angeles County, the San Francisco Bay

[1] Counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus and Tulare.

Area[2], and the State of California generally. In each section, we consider the equity of services relative to local need as defined by the number of households, homebuyers, and businesses.

We chose to focus our analysis on the Big 3 banks because they dominate California's banking activity. Bank of America, Wells Fargo and JPMorgan Chase hold the largest share of the banking market in the San Joaquin Valley, Los Angeles, and the Bay Area. They set the standard of service provision and are seen as a proxy for access to financial services generally.

BACKGROUND ON THE SAN JOAQUIN VALLEY

The San Joaquin Valley is home to four million people; its biggest city, Fresno, has almost one million residents. The counties making up the San Joaquin Valley are Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus and Tulare. These eight counties cover 27,262 square miles: roughly the size of the state of Massachusetts.

The main industry in the San Joaquin Valley is agriculture and food processing; however there is also substantial employment from state and local governments, the healthcare industry and Kern County has substantial employment from the oil industry. However, San Joaquin Valley households make less income per capita, per family and per household than LA County, the Bay Area, and California generally. According to 2010 census data, the per capita income in the San Joaquin Valley was $19,744, which is significantly lower than LA County ($27,344), the Bay Area ($42,493), and California ($27,344).

The Valley also experiences a higher rate of unemployment and foreclosure than the nation and the rest of California. For most of 2012, average unemployment in the Valley was 15.5% compared to 10.8% in the state and 8.3% nationally.[3] One out of every forty-five (45) homes in the Valley received a notice of default in 2012 compared to one in 65 in California.[4] The San Joaquin Valley is incredibly diverse with large immigrant populations from Latin America and Southeast Asia. Unfortunately, many members of these immigrant populations live below the poverty line.

With stronger attention from banks and their regulators, the San Joaquin Valley and other similarly situated non-metropolitan areas could thrive and prosper, and greatly improve California's economy.

II. Analysis of Access to Consumer Services

Owning a bank account is the foundation of a household's financial life. Bank accounts are the safest way to conduct most of a household's everyday transactions such as making purchases, paying bills, and saving money. Without a bank account, a person must use a variety of different financial services such as check cashers, prepaid cards, or even a piggy bank – all of which are more expensive and come with few consumer protections. The lack of a bank

[2] Counties of San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa and Marin.

[3] US Bureau of Labor Statistics.

[4] Foreclosure Radar.

account impedes a person's ability to access credit that comes with consumer protections, such as credit cards, mortgages, small business loans, and government backed student loans. People without bank accounts are more likely to use more expensive and highly unregulated sources of credit such as payday loans, which can run as high as 450% in annual percentage interest rate. Bank accounts have a strong positive correlation with higher, more stable income and wealth, sustainable spending habits, and economic advancement through homeownership, entrepreneurship, and education.

It is therefore disheartening that San Joaquin Valley residents are more likely to be unbanked than Los Angeles and Bay Area residents. In addition to the large numbers of residents who do not have a basic account at all, many residents have inadequate accounts that do not meet their basic financial needs. They are also surrounded by largely unregulated check cashing and payday services that tend to strip financial resources from families and communities. In fact, the check cashing and payday industry is far more aggressive than banks serving the Valley. As these predatory lenders expand in the Valley, banks are raising the cost of their most basic accounts. Valley residents must pay the increased account costs that the Big 3 banks impose throughout California, despite having less income to spend on these services.

To increase access to bank accounts, and raise rates of account ownership and use, banks must compete with the check cashers and payday lenders for the Valley's consumer business. They must match or exceed ease of access to check cashers and payday lenders, lower costs for monthly fees, overdraft fees and staple items such as money orders.

SAN JOAQUIN VALLEY RESIDENTS ARE MORE LIKELY TO BE UN-BANKED AND UNDER-BANKED

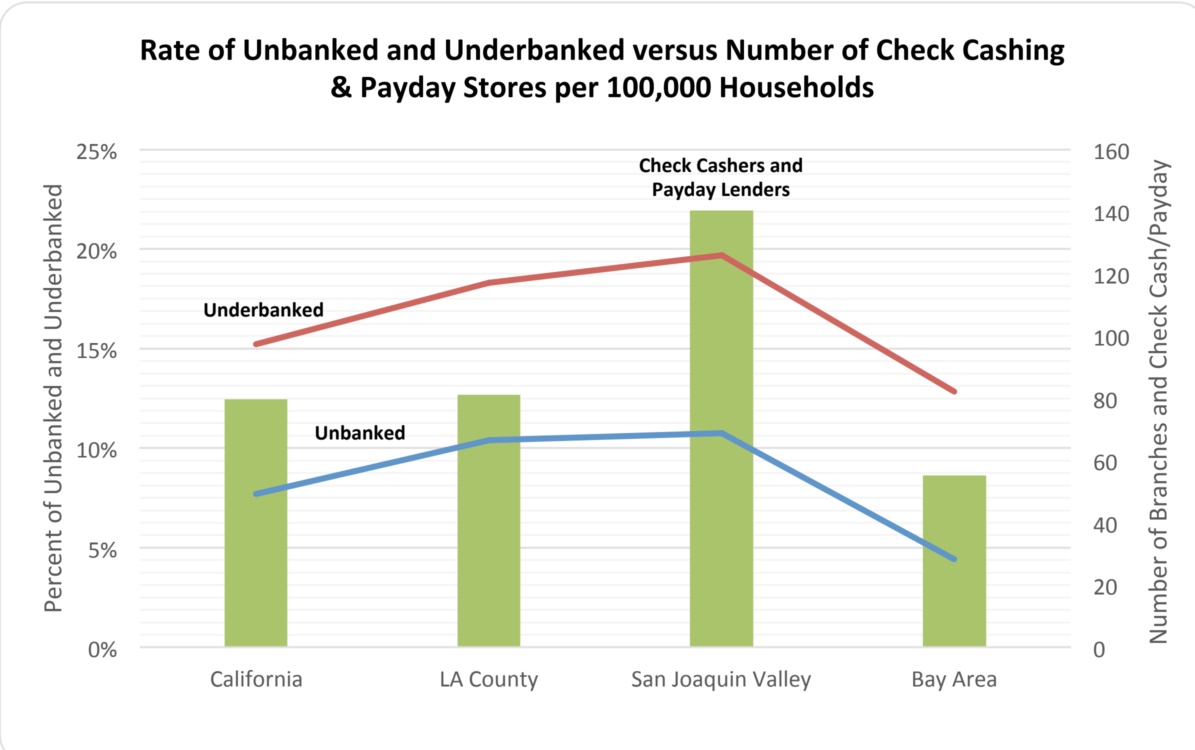
The San Joaquin Valley has the highest rate of unbanked and under-banked residents of the areas we compared. Almost 11% of San Joaquin Valley residents have no banking account and almost 20% have a banking relationship that does not meet their needs for basic financial services. These unbanked and under-banked individuals need to use check cashing stores, pawn shops and other less regulated and more expensive non-bank financial service providers for some or all of their financial needs. In fact, Fresno adults were 226 percent more likely than all U.S. adults to be unbanked. Bakersfield residents, with 10 percent unbanked, were 94 percent more likely to go without a bank or credit union.

Compared to the averge Californian, San Joaquin Valley residents are 33% more likely to have no or inadequate banking. They are also 3% more likely than a resident of Los Angeles County and 76% more likely than a Bay Area resident to be unbanked or under-banked. Despite this, the Big 3 banks, who also have the most market share in the Valley, have been rated by the bank regulators as adequate or excellent in their provision of consumer services according to CRA Performance Evaluations.

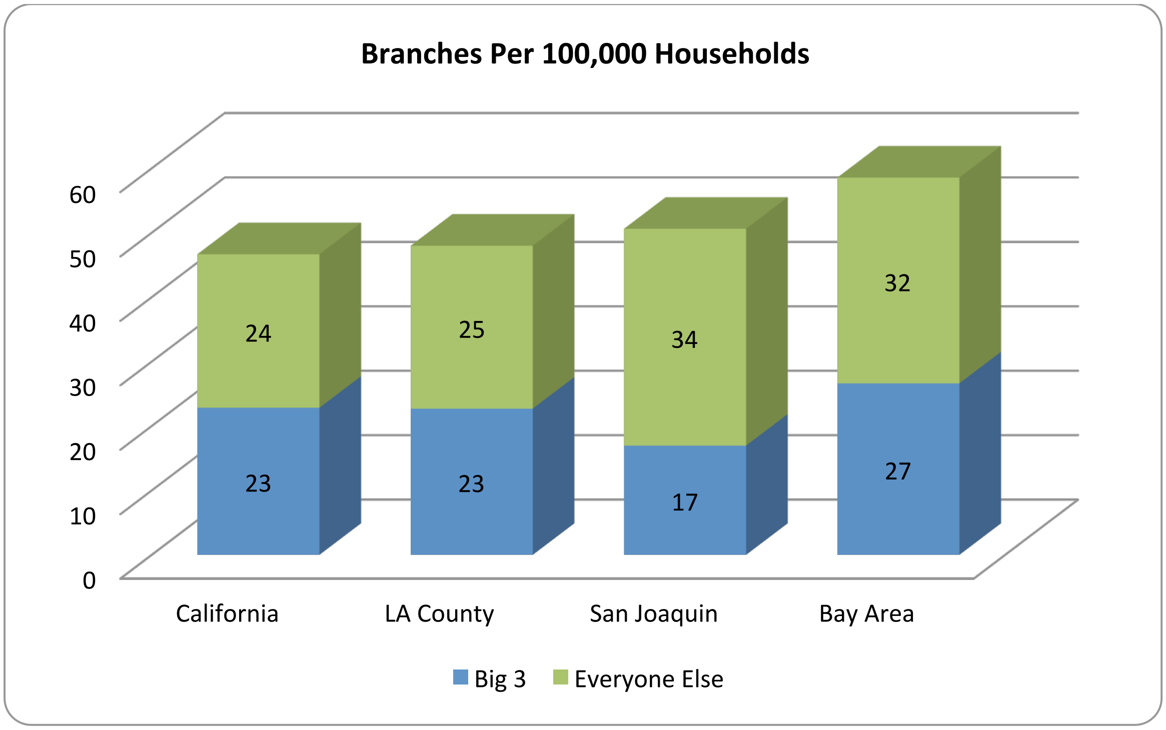
	*Residents with **No** Bank Account*	*Residents with **Inadequate** Banking Services*
San Joaquin Valley	**10.74%**	**19.68%**
California	7.7%	15.2%
Los Angeles County	10.40%	18.30%
Bay Area	4.42%	12.83%

BANKS HAVE LEFT VALLEY RESIDENTS IN THE HANDS OF CHECK CASHERS AND PAYDAY LENDERS

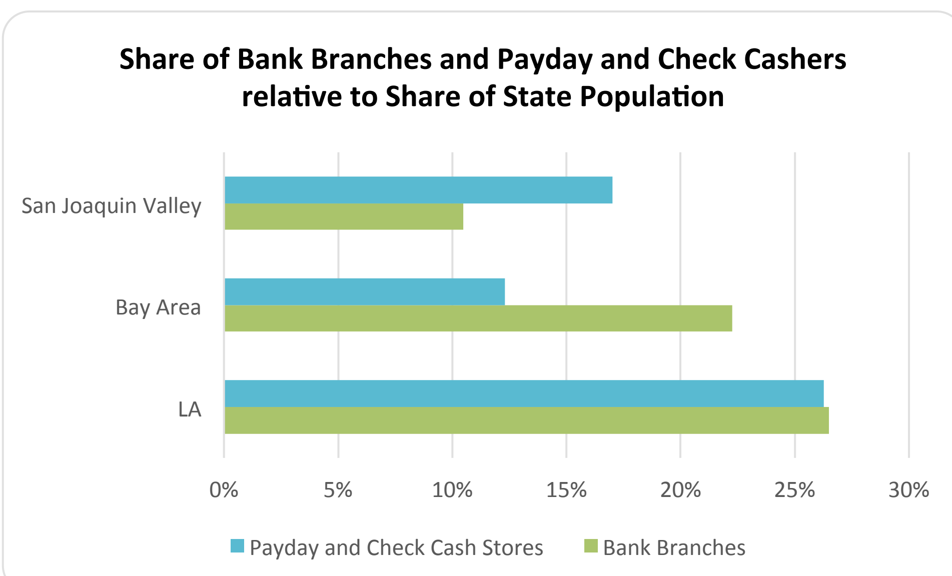
The Valley's high rate of unbanked and under-banked households is no surprise given that less than 40% of consumers have access to bank branches. Instead, check cashers and payday lenders dominate most of the branch presence in the Valley. ***The San Joaquin Valley has a whopping 140 check cashing and payday stores per 100,000 households compared to only 51 bank branches per 100,000.*** For its share of the state's households, the Valley has almost twice as many check chasers and payday lenders than banks. The Big 3 and other banks can meet the financial service needs of San Joaquin Valley residents, and reduce the rate of unbanked and underbanked households by competing more aggressively with the check cashing and payday industries.



The Valley has approximately 51 bank branches per 100,000 households, more than LA County's 48 branches per 100,000 households and California's 47 branches per 100,000 households, but less than the Bay Area's 59 branches per 100,000 households. However, the Big 3 banks take a weaker lead there: they own only 33% of local branches in the Valley compared to about 45 to 48% of the branches in Los Angeles, the Bay Area and the state generally. Meanwhile, the check cashing and payday industry in the Valley is far more aggressive than banks serving the area. Though the Valley is home to about 9.6% of the state's households and about 10.5% of the state's bank branches, it contains about 17% of the state's check cashing and payday outlets.



The high ratio of bank branches to check cashers and payday lenders is strongly related to low rates of bank account ownership and use. The Valley has the highest rates of unbanked and under-banked households and the highest imbalance of check cashers to bank branches- there are 277% more check cashers and payday lenders per household than bank branches. Contrast that to the Bay Area, which has the lowest rate of unbanked and under-banked households and where check cashers and payday lenders make up 94% of the number of bank branches per household. Los Angeles County lands closer to the statewide median, with check cashers and payday lenders making up about 169% of bank branches per household and a lower rate of unbanked and under-banked households than the Valley.



THE HIGH COST OF BANK ACCOUNTS IS OUT OF REACH FOR SAN JOAQUIN VALLEY HOUSEHOLDS

The Big 3 banks have increased the costs of basic services statewide beyond the reach of many Californians, especially households in the San Joaquin Valley, which has half the per capita income of the Bay Area. It will cost a San Joaquin Valley resident $84 to $144 a year just to have a bank account at the biggest banks unless she can satisfy the complicated requirements for a fee waiver. These requirements include foregoing using a bank teller or receiving monthly mailed statements; having income directly deposited every month – from $250 monthly at Bank of America to $500 at Wells Fargo and JPMorgan Chase; or maintaining an average daily balance of at least $1,500 in the account. Many of these thresholds make it impossible for low-income consumers in the Valley to avoid paying up to $15 a month just to maintain a bank account.

Even when customers are able to have their monthly account charges waived, customers have to pay between $5 and $10 for a money order or cashier's check and they need to resist the sales pitch for overdraft "protection" to avoid paying fees for transactions that would overdraw their account. Money orders are a staple financial tool used by under-banked households to pay for both recurring expenses, like rent, and irregular but necessary expenses, like school activities. For families living paycheck to paycheck, money orders are more useful than checks because they make money management easier; like spending cash, purchase of a money order makes those funds immediately unavailable for other purchases, eliminating the risk of losing track of which dollars have been committed but not spent. They also help avoid expensive overdraft fees, which can range from $10 with a bank's overdraft "protection" to $35 per overdraft without such "protection" or the equivalent in insufficient funds fees.

At these prices, families often conclude that they cannot maintain enough money in a bank account to cover the fees. These families are pushed out of the financial mainstream and down to a secondary tier of limited and more expensive service financial products, such as check cashers.

COST OF BASIC BANKING	BANK OF AMERICA		WELLS FARGO	JPMORGAN CHASE
	eBanking	*MyAccess*	*Value Checking*	*Total Checking*
MONTHLY CHARGE	$8.97	$12	$7 ($9 with paper statements)	$10
WAIVERS AVAILABLE FOR MONTHLY CHARGE	Both paperless statements *and* No Teller Assistance	Either $250 Direct Deposits monthly *or* $1,500 average daily balance	Either $500 Direct Deposit Monthly or $1,500 average daily balance	Either $500 Direct Deposit Monthly or $1,500 average daily balance
COST OF A MONEY ORDER	$10 (Cashier's Check)	$10 (Cashier's Check)	$5	$5
OVERDRAFT POLICY	No overdraft at Point of Sale; Opt-in or Out for checks, electronic payments $10 per transfer with overdraft protection and $35 per overdraft or NSF fee without.		Opt-In or Out for All Transactions $12.50 per transfer with overdraft protection and $35 per overdraft or NSF fee without.	Opt-In or Out for All Transactions $10 each day there is a transfer with overdraft protection and $34 per overdraft or NSF fee without.

RECOMMENDATIONS FOR INCREASING BANK ACCOUNT OWNERSHIP AND USE

Banks must not continue to cede the San Joaquin Valley to check cashers and payday lenders. Valley residents are comparably weaker financially than their neighbors and less able to take part in the uneven economic recovery because of their lack of access to basic affordable banking services. Valley residents should not be relegated to using less regulated, more expensive financial services that leave them without consumer protections, with less wealth to apply towards savings, and less able to establish good credit necessary to finance many of life's major milestones.

To reverse the current situation of high rates of unbanked and under-banked households, banks have to increase physical access to financial services to compete with the saturation of check cashers and payday outlets. At the very least, banks must not close branches when it causes local residents to face extensive travel to the next nearest bank and more likely to use a check cashing or payday lending store.

In addition to expanding brick and mortar access to bank services, banks must lower the cost of basic financial services including monthly service fees, costs of money orders, and cost of overdrafts. The Big 3 can and should lead the way by lowering prices and marketing aggressively and in competition with the check cashers and payday lenders in the Valley.

Regulators must fully evaluate the financial services that banks offer consumers in the San Joaquin Valley. Only Wells Fargo contains any portion of the Valley as part of the geographic areas for which they receive "full scope" assessment. Regulators should also reorient the standard for measuring success on CRA service exams from the current standard comparison to the activity of other banks in the area. The data that should be studied is the number of accounts a bank has opened in an area, including the San Joaquin Valley and other communities where the rate of unbanked and underbanked households is high. Regulators must consider how long these accounts are used, and compare increases in bank account ownership to changes in the rate of unbanked and under-banked households.

III. Analysis of Lending for Single and Multi-Family Housing

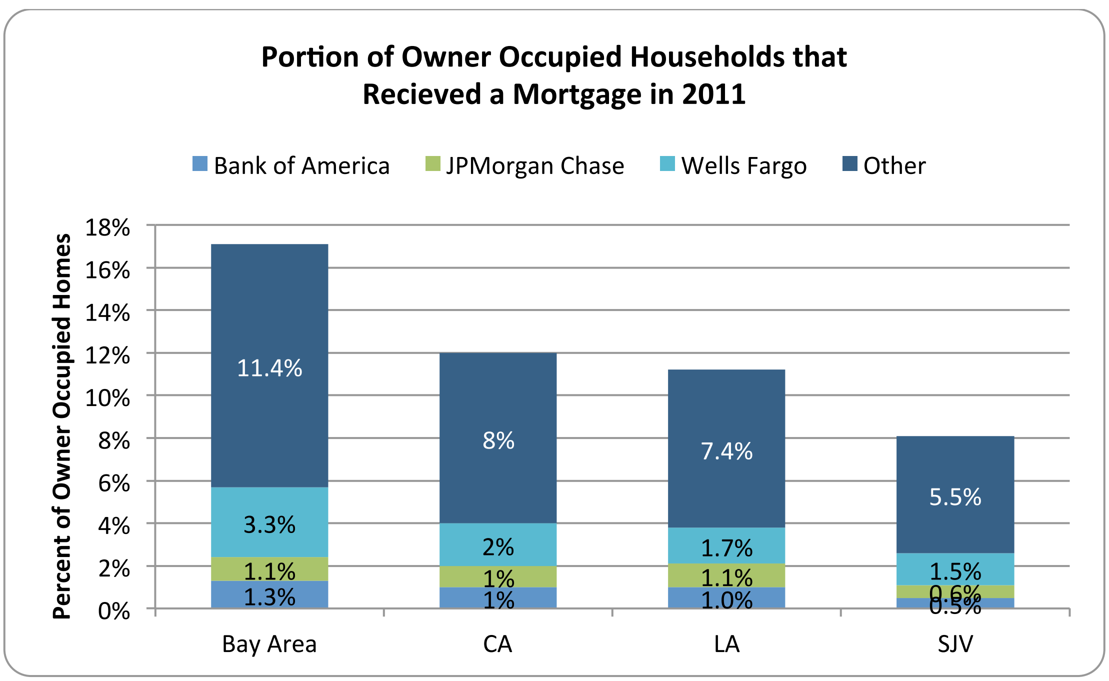
Stable, affordable housing is a foundational issue for all families and communities. Financial institutions can strengthen and support neighborhoods by helping families purchase or refinance their homes, and by financing the development of quality, rental housing that is affordable to all members of the community. But banks can also undermine neighborhoods through redlining, disinvestment, or offering products that are more expensive than others that families might qualify for.

Valley homeowners receive fewer home purchase loans and refinance loans than other parts of the state. That means that there are fewer homeowners and homeownership opportunities in the Valley, and fewer dollars in the hands of existing Valley homeowners who may want to save for retirement, start a business, or fund a child's education. Further, the Valley has a much higher percentage of government insured FHA loans than the rest of the state, with over 40% of all Valley loans being FHA loans. FHA loans are good loan products for some borrowers, but CRC is concerned that many FHA loan borrowers could have instead qualified for lower cost conventional loans, the FHA loan unfairly leaving these homeowners to build equity and household wealth much more slowly.

The need for affordable rental housing is enormous in the Valley because of the large populations of low-income farm workers and families. The only data available to the public on multifamily lending unfortunately do not distinguish between loans that are for affordable housing, and those that are for upscale market rate housing. In addition, the data do not capture construction lending, which is another way in which banks can support affordable housing development. Given these limitations, we still can see that the Valley received fewer loans to finance multifamily housing than other parts of the state. However, we do know from nonprofit affordable housing developers serving the Valley that while there may be construction lending available, there is little bank competition to provide permanent finance for affordable housing outside of the Bay Area and Los Angeles. This leads to higher costs to build affordable rental housing in the Valley, resulting in fewer affordable units built.

THE SAN JOAQUIN VALLEY RECEIVES FEWER HOME LOANS AND HIGHER DENIAL RATES

Federal regulatory data from Home Mortgage Disclosure Act (HMDA) filings provide a clear indication as to how banks meet the demand for single-family mortgages. The data show that the Big 3 banks, as well as the industry overall, made fewer home loans per owner occupied household in the Valley than they did in other regions of the state. Specifically, in the San Joaquin Valley, only 8% of owner occupied homes obtained a mortgage loan, compared to 17% of such households in the Bay Area.[5]



[5] For this analysis, we looked only at originations of home purchase or refinance loans to owner occupants on single family or manufactured homes.

Of the relatively few loans made in the Valley, the Big 3 banks had a stronger market share of loans to buyers in low and moderate (LMI) neighborhoods than they did outside of the Valley. Wells Fargo performed best by this measure. Wells originated just over 16% of loans in LMI neighborhoods throughout the state, but originated over 22% of such loans in the Valley. Bank of America, with a lower market share, nevertheless also did more LMI lending in the Valley than in any of the other regions examined.[6]

Though banks abused flexible underwriting standards leading up to the financial crisis, lenders today are too conservative in extending loans to borrowers who are able to make their mortgage payments. This dynamic is reflected in the high rates of denied loan applications. Bank of America and Wells Fargo denied a higher percentage of loan applications from the San Joaquin Valley than they did elsewhere. For example, while Bank of America denied just over 20% of loan applications it received statewide; it denied nearly 25% of applications from the Valley. While Wells Fargo denied 13.3% of applications statewide, it denied 16.7% of applications from the San Joaquin Valley. Higher denial rates may suggest that some Valley residents who are able to afford a mortgage are nonetheless being denied access to credit in this tight loan market.

FHA LENDING IS MUCH HIGHER IN THE VALLEY THAN OTHER PARTS OF THE STATE

Though FHA loans provide access to good but more expensive loans for borrowers who may not qualify for conventional home loans, evidence is growing that lenders are steering borrowers towards FHA loans even when they would in fact qualify for lower cost, conventional loans. Recently, Wells Fargo confirmed these fears when they mailed refund checks to 10,000 FHA borrowers who may have qualified for conventional financing.[7] CRC and others have noted that FHA lending is disproportionately concentrated in neighborhoods of color, so that any impermissible steering of borrowers is likely to have a broad disparate impact on borrowers and neighborhoods of color.

Single-family loans in the Valley are much more likely to be higher priced FHA loans than conventional loans. Over 40% of all single-family loans in the Valley were FHA loans, compared to 16.4% statewide, and fewer than 7% in the Bay Area. This analysis looks to 1st lien home purchase and refinance originations to owner occupants.

The same dynamic plays out with individual lenders. All lenders including the Big 3 are at least twice as likely to make FHA loans in the Valley as compared to their lending in the state as a whole. Though FHA loans are not bad loan products for consumers, they are more expensive and inappropriate for borrowers that qualify for lower cost conventional products.

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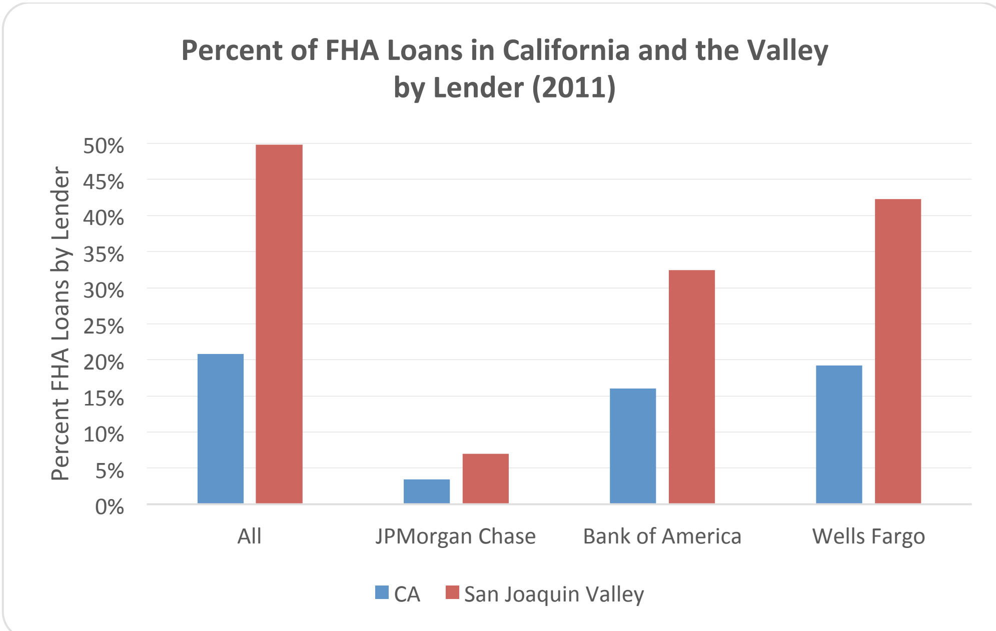
[6] For this analysis, we looked at 1st lien, conventional home purchase and refinance loans to owner occupants living in 1 to 4 unit dwellings.

[7] Los Angeles Times, "Wells Fargo sends refunds to some FHA mortgage customers: The bank says the customers paid unnecessary fees for their loans. If customers cash the checks, they can't later sue Wells Fargo." Scott Reckard, October 26, 2012.



THE SAN JOAQUIN VALLEY RECEIVED ONLY 1.1% OF MULTIFAMILY LOANS IN THE STATE

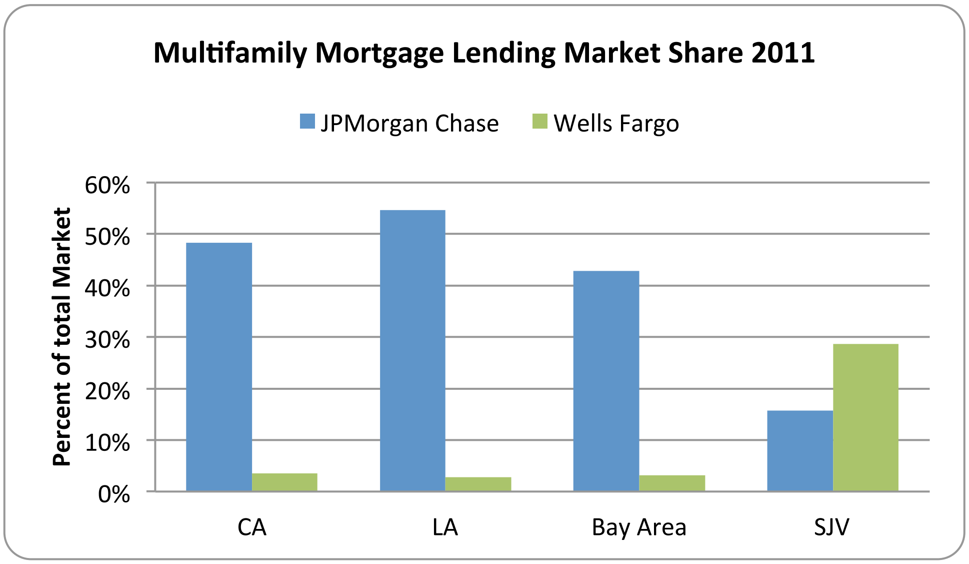
For many families, homeownership is not attainable or even desirable. Thus, there is a critical need for the development of permanently affordable rental housing. Banks can help meet this need in a number of ways, including by originating permanent loans for multifamily housing.

HMDA reporting provides some data on the number of multifamily loans originated by banks in various areas, but do not provide information on how much of this lending is for affordable, as opposed to market rate, housing. Additionally, banks may support affordable housing by originating loans for the construction phase of a housing project, but HMDA data does not currently capture construction lending. For this analysis, we looked at home purchase and refinance multifamily mortgage loans originated in 2011.

In 2011, lenders reported 6,124 multifamily loans originated in California. While it is hard to determine the valley's "fair share" of multifamily loans, the state's Tax Credit Allocation Committee (TCAC) has awarded 20% of federal tax credits, and 26% of state credits to rural projects. And for geographic apportionment awards under TCAC, 12% went to the "Central Region". By contrast, the San Joaquin Valley received 1% of all multifamily loans statewide.

Multifamily Loans Originated in 2011		
California	6,124	*Percent of Total*
Los Angeles	3,118	51%
Bay Area	1,456	24%
San Joaquin Valley	**70**	**1%**

Bank of America reports almost no multifamily mortgage loans in HMDA. By contrast, JPMorgan Chase reports the strongest market share of multifamily lending in the state, originating nearly half of all multifamily mortgage loans in 2011, while Wells Fargo claims only 3.5% of such loans. JPMorgan Chase does roughly half of all multifamily lending across the state as well as in Los Angeles and the Bay Area but does less than 16% of multifamily housing lending in the Valley. Meanwhile Wells Fargo steps up from about 3% of the market statewide to about 28% in the Valley, showing that Wells is more active in multifamily lending in the Valley. Again, while multifamily lending in the Valley is important, the data do not show whether the loans reported and analyzed here are actually meeting local affordable housing needs for lower income people.



RECOMMENDATIONS FOR IMPROVING ACCESS TO SINGLE AND MULTI-FAMILY HOUSING FINANCE

Data is readily available to help banks measure how well they make housing loans available in the Valley as compared to other parts of the state. Banks should use both internal and public data to ensure that they support single and multi-family housing opportunities in the Valley as well as they do in Los Angeles and the Bay Area.

Banks should offer flexible, creative, and safe portfolio loan products to first time homebuyers and other borrowers. Banks must offer all their customers the best-priced product for which they qualify. Bank regulators should investigate whether banks are improperly steering conventional loan-qualified borrowers into more costly FHA loans, including in underserved areas such as the San Joaquin Valley.

Regulators should strongly promote affordable multifamily housing lending in non-metropolitan areas like the Valley. Specifically, regulators should enhance data reporting to capture all products that support affordable housing development, and to measure the depth and length of affordability of projects financed by multifamily lenders. This transparency will enable community leaders and local governments to see which lenders are serving their communities and promote increases in access to credit.

In addition, regulators should conduct full scope CRA reviews of non-urban areas in bank assessment areas. Just like in classes where instructors "teach to the test," banks focus their reinvest resources in areas they know their regulators will examine fully. The attention given by expanded full scope reviews will thus dramatically expand bank performance in these areas.

IV. Analysis of Small Business Lending

Neighborhood businesses keep local commercial districts humming, hire neighborhood residents, and strengthen the local tax base. Though most of these businesses come into existence through the resourcefulness of the owner, business growth often depends on the ability to obtain bank loans. Without access to credit, businesses often falter, leaving both owners and employees without the ability to grow and build a thriving business district.

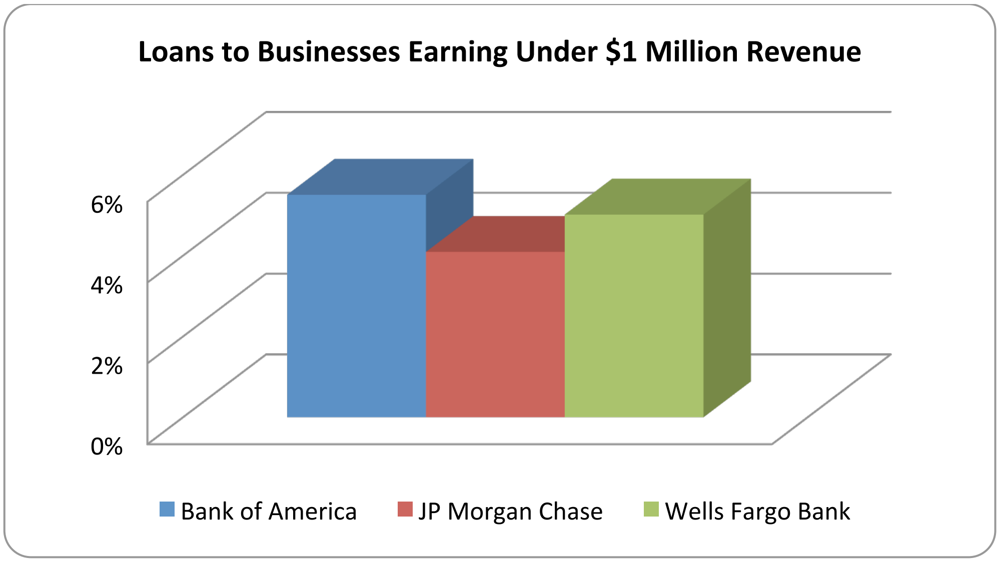
Small business lending by the Big Three banks in the San Joaquin Valley falls far behind their lending in the San Francisco Bay Area and Los Angeles County. The Big 3 banks fail to support existing businesses in the Valley or support new business creation that is proportional to population needs. Bank of America, with the best record of lending to small businesses with revenues less than $1 million annually, still met only four out of five businesses need for credit.

Though the population of the Valley is roughly half Latino, Latino-owned businesses make up just more than 20 percent of Valley businesses. This indicates a lack of financing to allow Latino-owned businesses to grow in number in proportion to the Latino population. Only Wells Fargo financed loans to Latino-owned businesses in proportion to their population in the region (20% of all Valley businesses). However, none of the banks provided loans to Latino owed businesses in numbers that were proportional to the size of the Latino population in the region.

This inadequate level of access to credit means that Valley small businesses, and the economic vitality of the area as a whole, will continue to fall further and perhaps irrevocably behind those in more metropolitan areas. Without access to credit, Latino business owners and other business people in the Valley do not have the opportunity to own or grow their businesses.

BANKS DO NOT MEET THE NEED FOR LOANS TO SMALL BUSINESSES

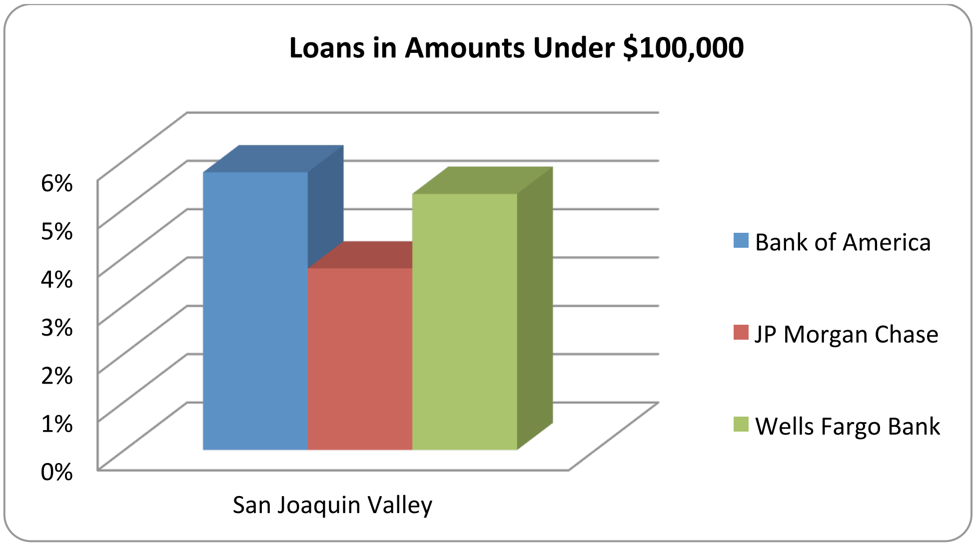
The San Joaquin Valley has 6.7% of the state's businesses and 9.75% of the state's residents. Lenders would be therefore meet the need for small business loans if the San Joaquin Valley received at least 6.7% and hopefully 9.75% of each bank's small business loans statewide. According to data from the Federal Financial Institutions Examinations Council (FFIEC) for 2011, the most recent available, none of the Big 3 banks met this standard in the San Joaquin Valley.



The San Joaquin Valley has 9.7% of the state's population, and 6.7% of the state's businesses but all Big 3 banks made less than 6% of their loans there.

Bank of America only made 5.7% of its loans in the Valley, while JP Morgan Chase made 3.7% of its loan in the Valley and Wells Fargo made 5.3% in the Valley. All three banks fall below the proportion of small businesses located in the Valley (6.7%) and far below the Valley's share of the state's population (9.7%). By contrast, Los Angeles received 31% of Bank of America's loans and 38% of JPMorgan Chase's even though Los Angeles only has 28% of the state's businesses and population. The Bay Area received 23% of Bank of America's loans, almost 19% of JPMorgan Chase's and 27% of Wells Fargo's loans even though the Bay area only has 17% of the state's businesses and 18% of the state's population.

Similarly, none of the Big 3 banks provide loans in amounts under $100,000 to San Joaquin Valley businesses in proportion to the Valley's share of businesses or population; the opposite is true for Los Angeles and the Bay Area. Loans under $100,000 are particularly important to small businesses trying to expand their operations and that are likely to hire locally. Banks are increasingly providing much smaller loans- primarily through business credit cards (which are much more expensive) - or much larger loans of $500,000 or more (which are too large to be accessible for small businesses). This means that small businesses which are the engine of economic vitality are not able to get the credit that they need to expand and hire local people.

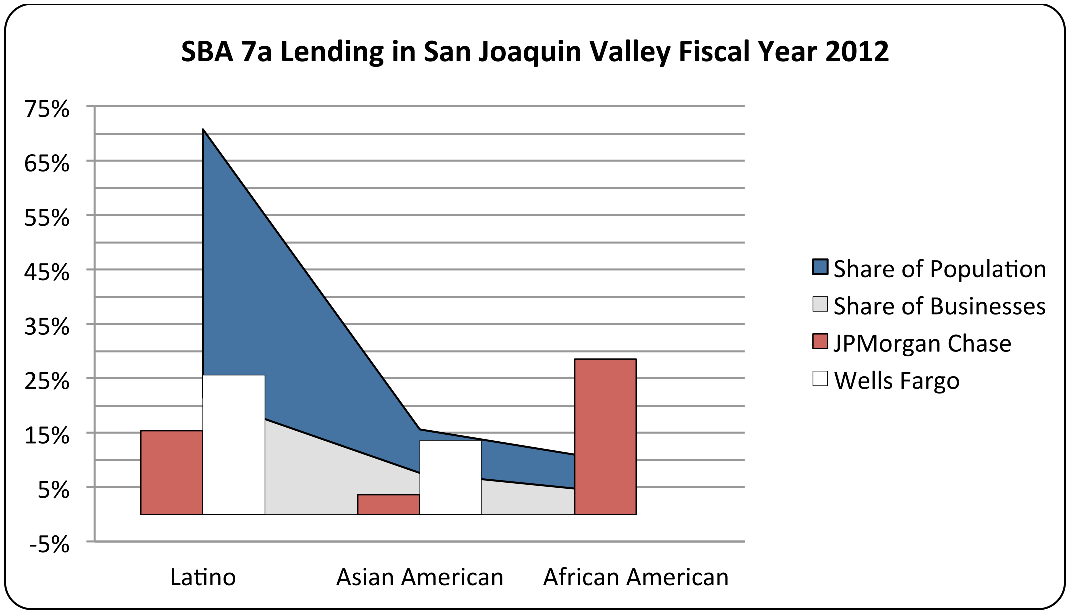


*All Big 3 banks made a disproportionately small share of loans under $100,000 in the San Joaquin Valley which makes up **6.7%** of the state's businesses and **9.7%** of the state's population, than in Los Angeles and the Bay Area.*

BANKS ARE FAILING TO MEET THE DEMAND FOR LOANS BY MINORITY-OWNED BUSINESSES

Currently, only the Small Business Administration provides data about small business lending to minority-owned businesses. We compared the Big 3 banks' SBA 7(a) lending to African American, Latino and Asian American owned businesses relative to each other and their share of the Valley's population and minority-owned businesses.

Lending levels to minority-owned businesses in the Valley are wildly inconsistent. Bank of America did not make any SBA 7(a) loans to minority-owned businesses in the Valley. JP Morgan Chase made loans far below the need for Asian American and Latino owned businesses, while making only two of the total seven loans to African American owned businesses in the Valley that year. Wells Fargo did better than its competitors among Asian Americans and Latinos, but failed to make any loans to African Americans.



Strikingly, Latinos are nearly a majority of the population of the Valley but their share of business ownership is markedly lower than their portion of the population. The lack of lending opportunities may be a strong factor inhibiting business development and growth for Latinos in the San Joaquin Valley.

The same is true statewide. Lending to Latino owned businesses is at roughly the same level as the Latino-owned share of businesses, but not the Latino population. The general population of an ethnic group can represent the opportunity for business ownership and entrepreneurship. If lending is dramatically less than the size of the ethnic population, the opportunity for business expansion is narrow. Big banks seemingly are more comfortable lending to Asian American owned businesses: loans to these businesses comprise a higher share of these banks' loans than those businesses proportion of the total business population. The opposite is true for African American owned businesses: the share of loans from the Big 3 to African American owned businesses is less than those businesses comprise of the total business population.

The regulators must focus on these barriers to economic growth and opportunity. Communities have been asking regulators to issue data collection standards on lending to minority- and women-owned businesses for many years so that the public will be able to see the level of lending by banks. Historically, home mortgage lending to people of color and women dramatically increased when that specific lending data became public so that financial institutions' responsiveness to community need could be judged by the public, including their own customers. The Dodd-Frank Act authorized the Consumer Financial Protection Bureau to do so but, after several years, it has still not happened.

RECOMMENDATIONS FOR IMPROVING ACCESS TO SMALL BUSINESS LENDING

Banks must offer equitable small business lending in the San Joaquin Valley. Both banks and regulators should expect a bank's small business lending volume to match or exceed the number of small businesses in the area and the opportunities for new businesses in proportion to the population. Banks should invest in and work with local community lenders, technical assistance providers and business incubators to help finance small and minority-owned businesses. Such partnerships may be particularly helpful to enhance credit delivery mechanisms to minority owned businesses, given the dismal performance of banks to reach these markets to date.

In addition, bank regulators, including the Consumer Financial Protection Bureau, must deliver data collection and reporting requirements to track such things as lending by race of business owner to create accountability in the system.

V. Conclusion

The biggest and most powerful banks in California are failing to respond to the financial services and credit needs of the San Joaquin Valley. Even when adjusted for population, banks are providing fewer and less affordable services than Valley residents and businesses need. The Big 3 banks have the capacity to provide the same level of attention and resources to the Valley as they do to Los Angeles and the Bay Area but, so far, they have not.

The reasons for this failure are multiple. Bank regulators do not sufficiently emphasize the provision of financial services and credit to nonmetropolitan California. The regulators should instead focus more on non-metropolitan areas and also rotate assessment areas in the bank's CRA full scope review examinations. This will encourage banks to focus more on rural California. There is currently a significant lack of data to track performance that the Valley needs, such as multifamily lending and small business lending for minority owned businesses. Regulators should require increased data collection and reporting so that banks and the public can measure activity against the needs of the community. Additionally, banks and regulators should investigate whether lenders are improperly steering borrowers into FHA loans.

As long as the Big 3 banks continue to focus their resources outside of the Valley and fail to meet the financial needs of Valley communities, the economic gap between the Valley and California's urban centers will continue to grow. It is a gap that must be addressed by the major banks, every California financial institution and those agencies that regulate them.